



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

September 20, 1985

SUBJECT: Appraisal of Farm Real Estate

TO: All State Directors, Farm Program Chiefs,
District Directors and County Supervisors

PURPOSE/INTENDED OUTCOME:

The purpose of this AN is to make sure farm real estate appraisals are developed by using the three major factors that must be considered in arriving at the best estimate of value of real estate. These are (1) market data approach, (2) capitalization approach, and (3) the summation approach.

IMPLEMENTATION:

Some farm real estate appraisals recently reviewed lack some necessary elements to make them fully supportable. It is emphasized that the three approaches identified on FmHA Form 422-1 "Appraisal Report (Farm Tract)", and in the regulations are actually three different methods of market analysis. Neither of these factors can be used alone in estimating the value of the property. All three approaches must be used in that each approach makes a contribution to the final estimate of fair market value.

In those States where the use of the capitalization approach has been made optional by State Instructions, State Supplements, State Bulletins or Administrative Notices, immediate steps must be taken to rescind such directives.

FmHA Form 422-10, "Appraiser's Worksheet -- Farm Tract (Study of Comparable Properties)", should be used to compare each comparable as it relates to the appraised property. Some real estate comparables because of time and/or a need to make larger than acceptable adjustments in their values should be eliminated. County Supervisors should update comparable sales cards, check all existing comparable sales data and retire those sales over two years old. District Directors should review sales data cards maintained in all county offices for current status and adequacy. The Farmer Program staff should review State Instructions to determine if guidance provided for making adjustments in time and capitalization rates presently provided reflect current trends in farm land values. Appraisers should calculate capitalization rates from comparable properties rather than using set capitalization rates.

EXPIRATION DATE: September 30, 1986

FILING INSTRUCTION: Preceding
FmHA Instruction 422.1



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The capitalization approach is the process of converting into present value a series of anticipated future periodic installments of net income derived from either ownership or rental of property. In real estate appraising, it may take the form of discounting. Discounting is the process of converting future returns to a present value. The capitalization rate will be determined by dividing the anticipated net income into the selling price of each comparable property sold in the open market that is being used in our appraisal.



VANCE L. CLARK
Administrator